

DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: June 28, 2011
POSITION: Neutral
SPONSOR: Department of Insurance

BILL NUMBER: SB 621
AUTHOR: R. Calderon
RELATED BILLS: AB 1868 (2009-10)

BILL SUMMARY: Insurance: Life: Disability: Discretionary Clauses

This bill would render void any provision in a life or disability insurance policy that reserves discretionary authority to the insurer to determine eligibility for benefits or coverage.

FISCAL SUMMARY

The Department of Insurance has indicated that any costs associated with this bill would be minor and absorbable.

COMMENTS

The Department of Finance is neutral on this bill because it would remedy the conflicts of interest that arise when the insurer responsible for providing benefits has discretionary authority to decide what benefits are due to the insured.

Existing law requires the Insurance Commissioner (IC) to disapprove any disability policy in specified circumstances. The IC is authorized to disapprove discretionary clauses in new policies only.

This bill would invalidate provisions in life and disability insurance policies that reserve discretionary authority (as defined) to insurers or agents to determine eligibility for benefits or coverage, to interpret terms of the policy, or to provide standards of interpretation that are inconsistent with state law, including clauses in renewed or previously approved policies.

This bill would authorize the IC to adopt regulations to implement its provisions.

A similar bill, AB 1868 (Jones) of the 2009-10 Legislative Session, was vetoed by Governor Schwarzenegger, who stated, "This bill is unnecessary, as the Insurance Commissioner already has the authority to prohibit the use of discretionary clauses." Finance notes the IC does not currently have the authority to disapprove discretionary clauses in renewed or previously approved policies.

		SO	(Fiscal Impact by Fiscal Year)							
Code/Department		LA	(Dollars in Thousands)							
Agency or Revenue		CO	PROP							
Type		RV	98	FC	2011-2012	FC	2012-2013	FC	2013-2014	Fund Code
0845/Insurance		SO	No		-----	No/Minor Fiscal Impact			-----	0217
<u>Fund Code</u>	<u>Title</u>									
0217	Insurance Fund									

Analyst/Principal (0221) J. Fitzpatrick	Date	Program Budget Manager Lisa Mangat	Date
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Department Deputy Director	Date
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Governor's Office:	By:	Date:	Position Approved _____
			Position Disapproved _____

BILL ANALYSIS	Form DF-43 (Rev 03/95 Buff)
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